NABISCO

NABISCO PEOPLE

NATIONAL BISCUIT COMPANY Annual Report 1968

NATIONAL BISCUIT COMPANY

425 PARK AVENUE
NEW YORK, NEW YORK 10022

Annual Report

FOR THE YEAR
ENDED DECEMBER 31, 1968

Table of Contents

Transfer Agents

Morgan Guaranty Trust Company
30 West Broadway
New York, N.Y. 10015

Continental Illinois National
Bank & Trust Company
231 South LaSalle Street
Chicago, Illinois 60690

Crocker-Citizens National Bank
1 Montgomery Street
San Francisco, Calif. 94120

Registrars

First National City Bank
55 Wall Street
New York, N.Y. 10005

The First National Bank of Chicago
38 South Dearborn Street
Chicago, Illinois 60690

Bank of America
1 South Van Ness Avenue
San Francisco, Calif. 94120

Debenture Trustees

Bankers Trust Company
16 Wall Street
New York, N.Y. 10015

Morgan Guaranty Trust Company
23 Wall Street
New York, N.Y. 10015

Annual Meeting

The annual meeting of shareholders will be held at 2:00 p.m. on Monday, April 28, 1969, at the Commodore Hotel in New York City. A formal notice of the meeting, together with a proxy statement and proxy form, will be mailed to shareholders at least 30 days in advance of the meeting.

Chairman Lee S. Bickmore, center, is shown with President Robert M. Schaeberle, left, and Executive Vice President Val B. Diehl.

Financial Highlights

	1968	1967
Net sales	**$770,100,000**	$763,600,000
Income from operations	**90,500,000**	84,300,000
Net income	**41,800,000**	42,300,000
Net income per dollar of sales	**5.4 cents**	5.5 cents
Net income per common share	**3.07**	3.11
Dividends declared per common share	**2.10**	2.00
Common dividends declared	**28,500,000**	27,200,000
Earnings retained	**13,300,000**	15,100,000
Plant and equipment additions	**38,200,000**	37,500,000
Working capital	**134,100,000**	99,200,000

Net Sales by Quarters

(Millions of Dollars)

Quarter Ended	1968	1967
March 31	**$191.7**	$187.0
June 30	**184.2**	188.1
September 30	**188.9**	189.1
December 31	**205.3**	199.4
	$770.1	$763.6

February 5, 1969

To Nabisco Shareholders:

The year 1968 was a very good one for NABISCO—both domestically and internationally. We achieved another all-time high in sales for the tenth consecutive year. As a result, our pre-tax profits were at a record high for the seventh year in a row. In spite of this accomplishment, net profits were down slightly, principally as a result of the 10% surtax, which amounted to 27¢ per share. Also in 1968, dividends were increased for the 10th consecutive year.

In most of our major categories of products we improved our position in the marketplace. Our strong franchise items performed well, and the new products introduced during the year found favor with the consumers. We sincerely believe we are providing consumers with the best values in the seventy-one years of our existence.

However, the greatest progress in 1968 was in the development of the people of NABISCO. The marked improvement in their capacity to perform their duties effectively and efficiently is most gratifying. The people of NABISCO grew in stature, sophistication and competence. Today their outlook is no longer regional or national but global in scope.

The people of NABISCO realize that we, as individuals and as a corporation, live among people. What takes place in the Common Market of Europe, in Vietnam, in outer space, on Park Avenue or in the ghettos, affects us all. We recognize and accept our social responsibility as individuals and as a corporation.

In this environment as a company NABISCO has many publics. Our relationships with these publics determine our long-term success or failure. Our most important public, of course, is the ultimate consumer of our products. The value delivered to consumers is the key to satisfying them. The end value of a product is a combination of price, quality, quantity, convenience and service. Another most important public is you, our shareholders. Our objective is to assure you an adequate return on your investment in the form of dividends, growth and security.

The people of NABISCO, we the employees, are another important public of corporate NABISCO. This relationship is dependent on several things. Most important of these are the image of NABISCO, the opportunity, the security, the remuneration, the integrity and fairness, the profitability, and the personnel-development programs of our Company.

The distributors, including the retailers, wholesalers, brokers and jobbers, are still another most important public of NABISCO. To them, quality merchandise, good service, well-established, fast-selling products, and a satisfactory profit structure are imperative. Our suppliers also make up a most valuable public of NABISCO. Their goods, services, ideas and assistance make it possible for us to operate efficiently and successfully. These suppliers are entitled to a fair price, prompt payment and courteous treatment.

Finally, we believe we should be a good corporate citizen wherever we work, live or do business. This includes our becoming involved in community affairs, such as educational, charitable, political and church activities. We encourage the people of NABISCO to participate actively as good citizens. The corporate body attempts to do the same thing.

The job of Nabisco management is to arrive at the correct and proper balance in dealing with all of our many publics. It is a vital but a very delicate balance to achieve. Experience gained through the years and the splendid relationships with our many publics assist us in achieving this balance which results in fair and equitable treatment of everyone involved.

As we look to 1969, the people of NABISCO are optimistic, dedicated, qualified and committed. They are confident because they know that we recognize the importance of the people of NABISCO. They know that they have definite responsibilities and are held accountable for them. In addition, they understand that they will be properly rewarded according to their performance. This reward includes security, promotion, remuneration and additional opportunity.

The cover of this annual report connotes that we have chosen "people" as the central theme for our report to you this year. Our letter has dealt with the "People of NABISCO," individuals working together in a climate that is conducive to their growth and development. We attempt to provide an atmosphere that encourages each one to exercise his entrepreneurial instincts and, at the same time, see the entire picture as a collective effort. The dignity of the individual is recognized and appreciated. The teamwork of the "People of NABISCO" moves NABISCO on to ever higher goals.

To all of the publics of NABISCO, we want to express our thanks and appreciation for your excellent help in making the Company's seventy-one year record of success.

Lee S. Bickmore

LEE S. BICKMORE, Chairman

R. M. Schaeberle

ROBERT M. SCHAEBERLE, President

NABISCO IN 1968

National Biscuit Company's sales continued to climb in 1968, reaching a record high of $770.1 million, compared to the previous record of $763.6 million in 1967. On a more realistic basis of comparison, which adjusts for the loss of dollar volume resulting from the sale of the Bread Division early in 1968, sales increased 5.5 per cent. This was the 10th consecutive year of record sales for the Company.

The Company's pre-tax profits in 1968 also reached a record high, up 7.2 per cent over the previous record set in 1967. However, profits after taxes declined slightly to $3.07 per share from the record of $3.11 in 1967, due mainly to the 10 per cent U. S. federal surtax, which totaled $3.6 million or 27 cents per share.

Overseas Expenditures

A number of other factors combined to put pressure on earnings in 1968. They included heavy start-up costs in connection with the opening of the new plant in Australia, and the expenditures needed to establish systems of direct distribution of cookies and crackers to food outlets in several overseas countries.

In January of 1968, dividends to shareholders were increased again, for the 10th consecutive year, to an annual rate of $2.10 per share. This marked the 70th straight year of uninterrupted quarterly dividend payments by the Company.

Food retailing in many major markets abroad is becoming very much like that in the United States. The emergence of supermarket selling has increased consumer demand for familiar, brand-name products. Our spending to reshape our distribution systems to this development is a sound investment in the economic growth of these areas. As an integral part of this effort, the advertising and promotion of our products is being pursued aggressively to improve familiarity with the leading items of our line.

The U. S. Bread Division, which had generated annual sales of more than $35 million, was sold early in 1968. As a limited, regional operation, it lacked the marketing advantages of our other, nationally distributed product lines. Thus, the continuance of this operation did not fit our programs for growth in the United States. It is our belief that the investment in time and resources necessary to expand our former bread business now can be employed more effectively in other areas.

To aid in continuing our important expansion programs outside the United States—and, at the same time, to comply with the federal government's balance of payments directives, the Nabisco International Finance Company sold $30 million of convertible debentures in Europe in March. The 5¼ per cent debentures are guaranteed by National Biscuit Company and are convertible into shares of Nabisco common stock at the option of the holder.

CAPITAL EXPENDITURES

Capital expenditures continued in excess of $35 million for the second consecutive year and are expected to remain at approximately this level or to increase slightly in 1969, to meet increasing current demands and to equip the Company to handle its anticipated future requirements.

Our 1968 outlays for new and improved facilities brought total capital spending for the past decade to well over $200 million. This carefully planned program has been a key factor in NABISCO's steady growth during a period of heightened competition. It has enabled us to achieve greater efficiency in the development, production and distribution of our diversified product lines.

This type of investment in 1968 was centered on three major new plants: (1) the Melbourne, Australia cookie, cracker and cereal plant, which was officially opened in June; (2) the new cookie and cracker bakery located near Milan, Italy, which will begin production early in 1969, and (3) the new cereal plant in Naperville, Ill., which began operations in the fall of 1968.

In addition, major improvement programs were also conducted in 1968 at numerous existing facilities in several countries. Among the more noteworthy were the following:

Puerto Rico—installation of improved packaging facilities and provision of additional space for a new oven.

New Zealand—installation of a new oven and equipment for the bulk handling of flour and sugar, plus a new bakery warehouse.

Mexico—completion of a plant-expansion program, including a new oven, new offices, and facilities for the bulk handling of flour.

Venezuela—construction of new office facilities.

Nicaragua—installation of a new oven for sugar wafer production.

Increased Demand

In each of these countries, the expansion programs are motivated by a rising economy and an increased demand for our merchandise on the part of consumers. The product lines are being steadily enlarged to include items which have earned consumer popularity in their particular areas.

THE PEOPLE OF NABISCO NUMBER 36,000 AND ARE EMPLOYED IN 13 COUNTRIES THROUGHOUT THE WORLD. Above, a machine operator oversees a cookie line in one of Nabisco's 10 U. S. bakeries. Above right, clerk in Treasurer's Department provides valuable assistance in preparing financial report. Right, data processing specialist adjusts "memory" tape which contains detailed sales figures. Below right, Nabisco salesman puts the finishing touches on attractive display of Nabisco Snack Crackers and *Mr. Salty* Pretzels in a large supermarket's high-traffic area.

THE PEOPLE OF NABISCO ARE DEDICATED, QUALIFIED AND COMMITTED TO PROGRESS. Above right, technician calculates moisture content (an important quality test) of crackers hot from the oven. Above, bakery floorman hoists cartons of freshly baked crackers onto pallet for shipment to one of Nabisco's 200 sales branches in the U. S. Right, baker takes sample of *Fig Newtons* Cakes to check appearance and flavor. Far right, deliveryman prepares to enter suburban supermarket with merchandise for special display. Nabisco provides direct store-door delivery for cookies, crackers, cheese spreads, snacks, pretzels and ice cream cones.

In determining capital expenditures, NABISCO is generally guided by the principle of undertaking those projects which provide the most attractive rate of return. Each profit center submits the capital spending plans deemed necessary to meet its growth objectives. These proposals are reviewed at corporate headquarters and priorities are established which determine our capital projects and their budgets. Company units are encouraged to speed the introduction of new equipment and techniques. We constantly strive to improve operating methods and develop better ways of processing, packaging and distributing Nabisco products.

Through a continuing program of long-range planning of all Company operations, the general outlines of our capital spending program for the next several years have already been established. These plans are always subject to modification, but they provide a planning framework for the orderly growth of the business and the realization of our short and long-term objectives.

RESEARCH AND DEVELOPMENT

NABISCO's steadily expanding Research and Development Center in Fair Lawn, N. J. now has a staff of 300 people, more than half of whom work in the areas of product quality, product improvement and new-product development. Included in this group are many persons who have earned advanced degrees in various sciences and technologies. During the year, the Center embarked on some 50 new projects and continued work on an extensive roster of projects already in progress.

Product-development activities at the Research Center fall into two broad categories. The first deals with extending existing product lines with new and different varieties. This involves improving the taste or the texture of a product, or packaging it in a more convenient container, or adding an entirely new flavor to a multi-flavor line. Literally dozens of improvements of this type are created, tested and put on the market every year. In all this work, there is a never-ending emphasis on the high standards of quality that consumers around the world have come to expect of all Nabisco products.

Secondly, while much of Nabisco research work has immediate commercial applications, many long-range, basic research programs also are in progress. We are engaged in several nutrition research projects on a cooperative basis with educational institutions and government agencies. A major commitment of the food industry must be a responsible concern for the future nutritional requirements of an expanding world population.

NEW PRODUCTS

Perhaps the most distinctive characteristic of the present era is change—change in philosophies, in social relationships, in the physical sciences and in virtually every aspect of human life and endeavor.

We know that this same pervasive force of change carries over into the marketplace. Consumers are constantly seeking the new, the different, the novel. To be successful, a company must accept this trend as a way of business life.

This conviction guides our activities in the area of new-product development. NABISCO has numerous products that have been consumer favorites for many decades—RITZ Crackers, OREO Creme Sandwich, Nabisco Shredded Wheat, PREMIUM Saltine Crackers, FIG NEWTONS Cakes, CREAM OF WHEAT Cereal, BARNUM'S ANIMALS Crackers and MILK-BONE Dog Biscuits, to name just a few. In addition, our affiliated companies throughout the world have products every bit as popular with consumers in their countries.

But, as noted in the preceding discussion of research and development, we clearly understand the need to improve and extend these already successful lines frequently and to introduce completely new products to satisfy changing consumer tastes.

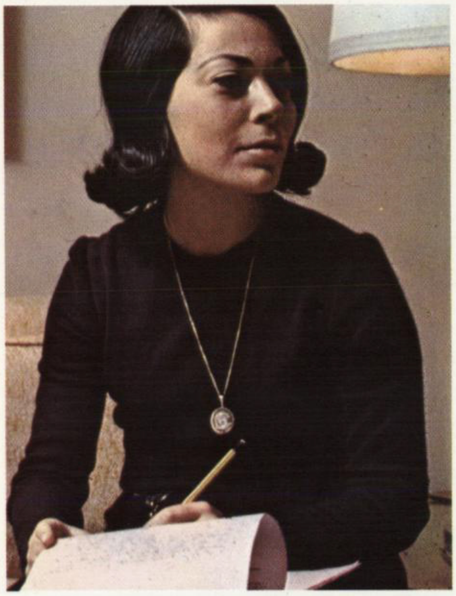
Snack-Food Growth

One of the fastest-growing segments of the food industry is that of snack foods, a field in which NABISCO has been a pioneer. Among the new snacks introduced by the Company in 1968 were CHIPSTERS Potato Snacks, which is enjoying highly successful sales on a regional basis and which will be marketed nationally in 1969. We also added a new flavor, French Onion, to the line of SNACK MATE Cheese Spreads and expanded our snack line of APPETEASERS Tiny Crackers with a new ham-flavored variety.

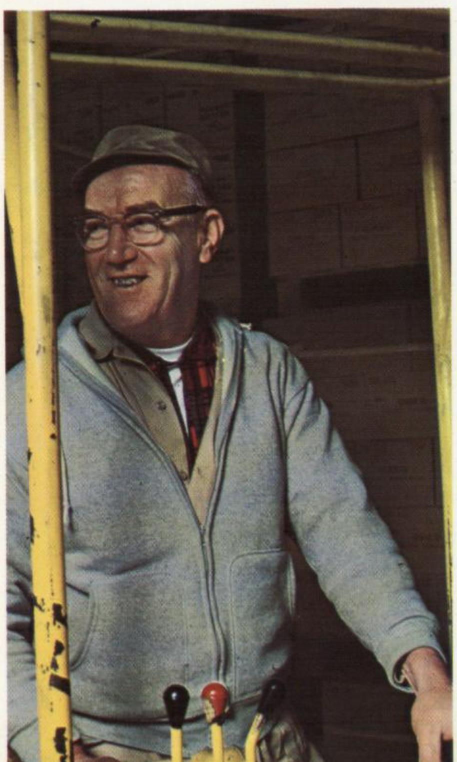
Development and testing also proceeded successfully on a number of new snack and candy items scheduled for introduction in 1969.

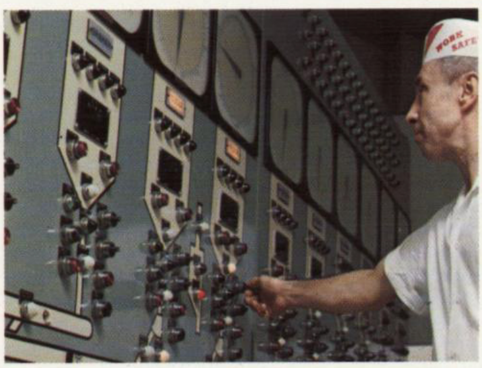
Regional test marketing was begun on two new types of ready-to-eat cereals which will be marketed nationally if test results are satisfactory.

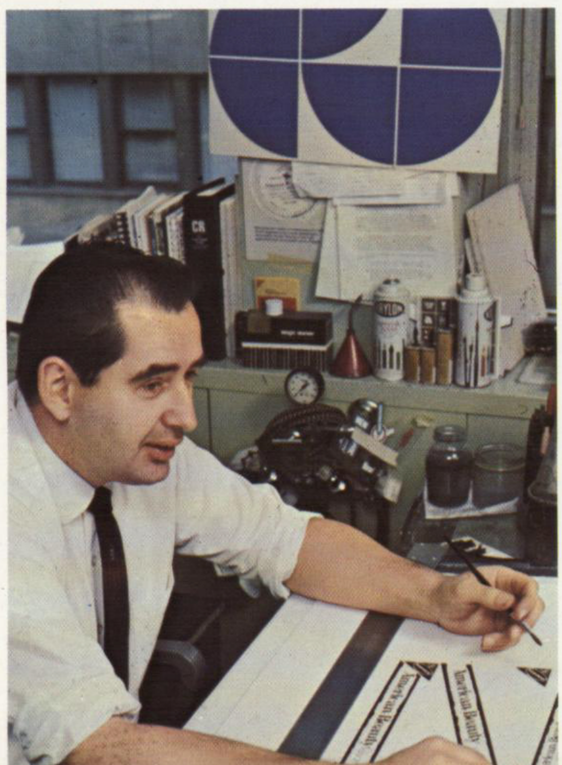
During 1968, we also established a program of collecting and evaluating new-product ideas from all Nabisco companies. We anticipate that our companies in 13 countries throughout the world will become an increasingly important source of new-product ideas in the future. One example of this was the successful U.S. introduction of BELIN Almond Top Wafers and Fancy Chocolate Wafers, which were developed by Biscuits Belin, S.A., our Nabisco affiliate in France.

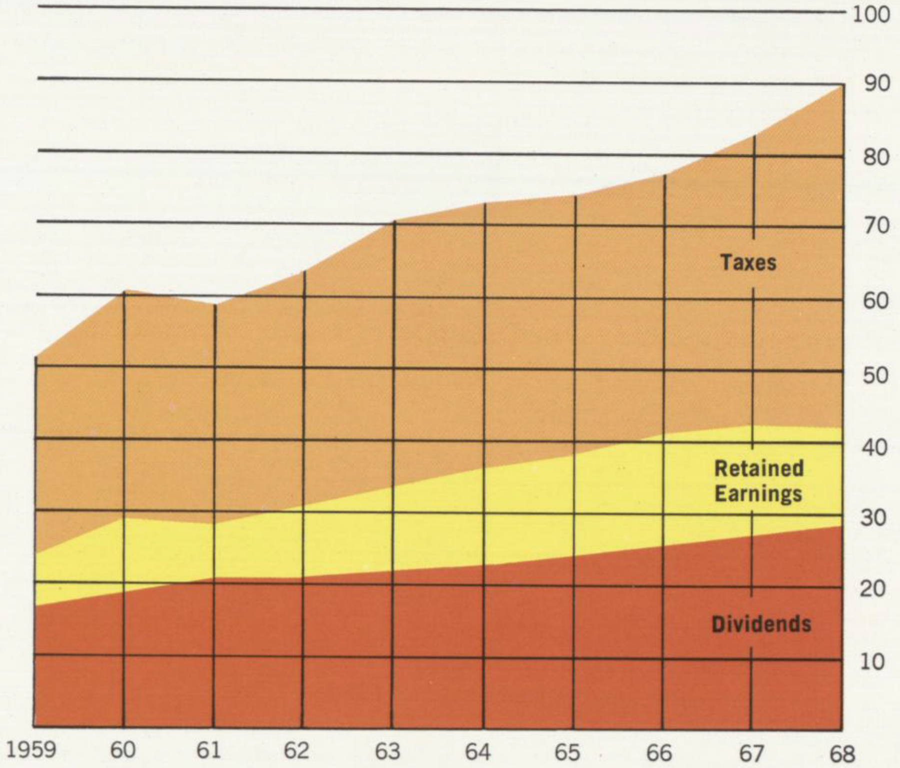


THE PEOPLE OF NABISCO HAVE THE VARIED TALENTS, TRAINING AND EXPERIENCE NEEDED FOR SUCCESS IN TODAY'S HIGHLY COMPETITIVE MARKET. Far left, market research specialist conducts interview to gain consumer reaction to new product Nabisco has developed. Left, technician checks exact dimensions of *Biscos Waffle* Creme, another of the continuous quality tests made on production samples at bakeries. Lower left, fork-lift operator shifts gears as he prepares to move merchandise from bakery shipping floor to waiting trailer truck. Center, mixer pushes button on electronic console to move precise quantities of ingredients (flour, sugar, shortening, etc.) from bulk storage units to mixing machines in the bakery. Below, artist works on design for new package in Company's art studio.



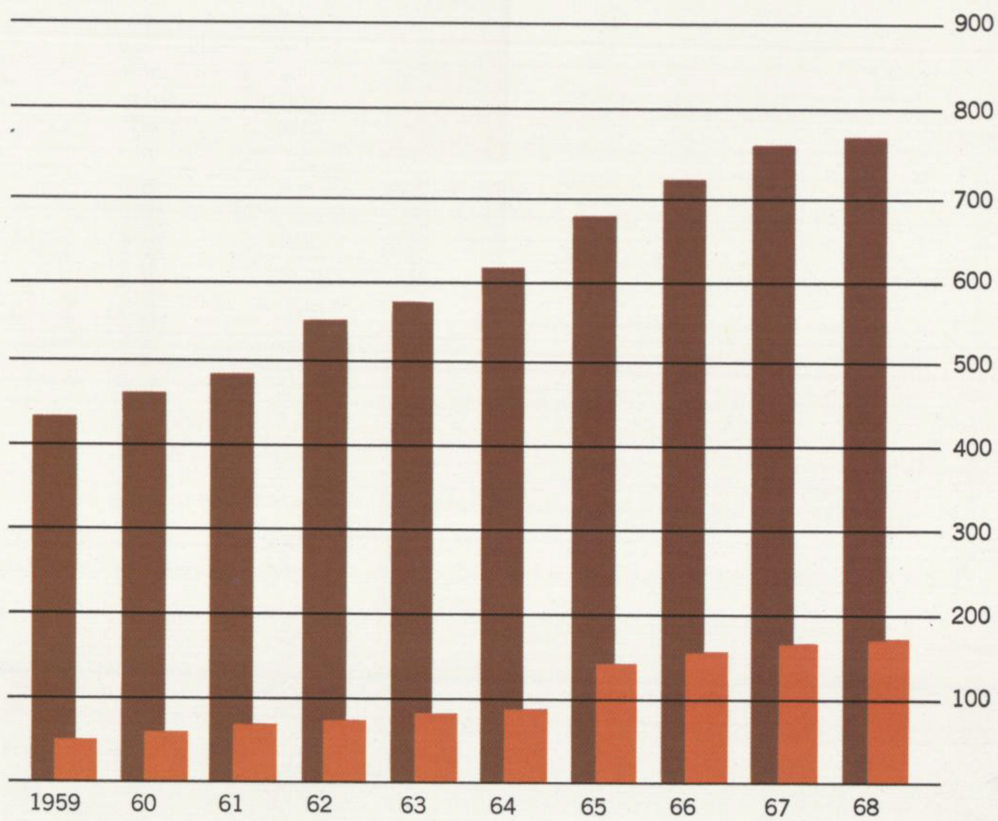






Distribution of Income Before Taxes

Millions of Dollars



Net Sales

Millions of Dollars

Consolidated
International

Other new products introduced in the United States last year included COOKIE BREAK Assorted Fudge Sandwich and two new candy bars, Nutty Crunch and The Wild One, both developed by the Candy Division.

INTERNATIONAL

Several of the most significant developments in NABISCO's international operations in the past year have been mentioned earlier. Of prime importance, however, is the high degree of cooperation being developed by our affiliated companies in Europe.

As the European Common Market progresses and as trade barriers diminish, opportunities for growth are being steadily enlarged. To capitalize on this development, we are constantly improving our production and distribution facilities in Europe. We are now employing these facilities on an inter-company basis to achieve maximum efficiency in serving the total European market, now and in the future. For example, our bakeries in France are producing also for Germany and Italy, and those in Germany and Italy are distributing some of their products in France.

Several of our international companies also took significant steps in 1968 to expand and improve their sales and distribution systems. Programs of this type were initiated in England, Puerto Rico, Venezuela, Mexico, Denmark, Germany and France.

Australian Growth

In Australia, Nabisco Pty. Limited has entered the cookie and cracker business with a carefully chosen line of 21 different varieties. Initial results of this venture have been most encouraging. We look forward with confidence to further growth in our Australian business.

During the year, the Matthews-Wells Company, a division of Nabisco Limited in Canada, was sold to a Canadian firm. Matthews-Wells is a relatively small producer of pickles, jams and jellies, and its opportunities for growth with us were limited.

During 1968, NABISCO's total volume of consolidated net sales outside the United States increased to $170.2 million or 22 per cent of the Company total. However, plant start-up costs and new marketing and distribution programs have curtailed consolidated net earnings from abroad to $3.7 million. Nevertheless, we are confident we have strengthened our international organization for the future. We expect a steady, long-term growth in both sales and profits from our international operations.

EXECUTIVE CHANGES

It is with deep regret that we record the death of Roy E. Tomlinson, former President and Chairman of the Board, on April 28, 1968. Mr. Tomlinson, who was 90 years of age, was associated with the Company for 63 years until his retirement from the Board in 1965. He headed NABISCO from 1917 to 1945 and upon retirement was elected Director Emeritus, the only person ever to be accorded this title.

The Company's management structure was strengthened in 1968 by several key changes, headed by the election of Lee S. Bickmore to the position of Chairman and Chief Executive Officer and of Robert M. Schaeberle as President, succeeding Mr. Bickmore.

Elected to succeed Mr. Schaeberle as Executive Vice President was Val B. Diehl, formerly Vice President—International Division. Mr. Diehl also was elected to the Board of Directors and to the Executive Committee.

Succeeding Mr. Diehl as Vice President—International Division was Theodore G. Richter, formerly Director of Sales—Biscuit Division. Howard W. Wilson, formerly Director of Marketing—Biscuit Division, was named Vice President—New Products.

Frank J. Gurgone, formerly Vice President—Finance, was named Vice President—Corporate Development, in charge of all corporate activities relating to acquisitions and mergers.

Warren J. Robertson, formerly Controller, was appointed Director of Finance. Succeeding Mr. Robertson as Controller was Robert S. Gruchacz.

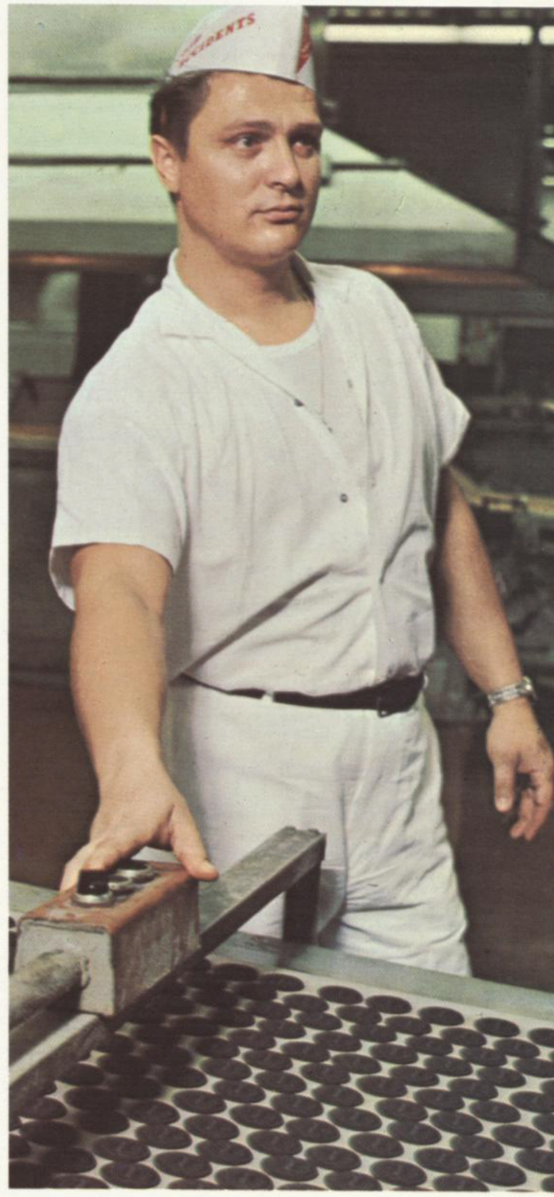
David H. Reilly was named General Auditor, succeeding Albert B. Michael, retired.

John B. McGovern was appointed Director of Personnel Relations to succeed Vice President Joseph H. Burgess, Jr., retired.

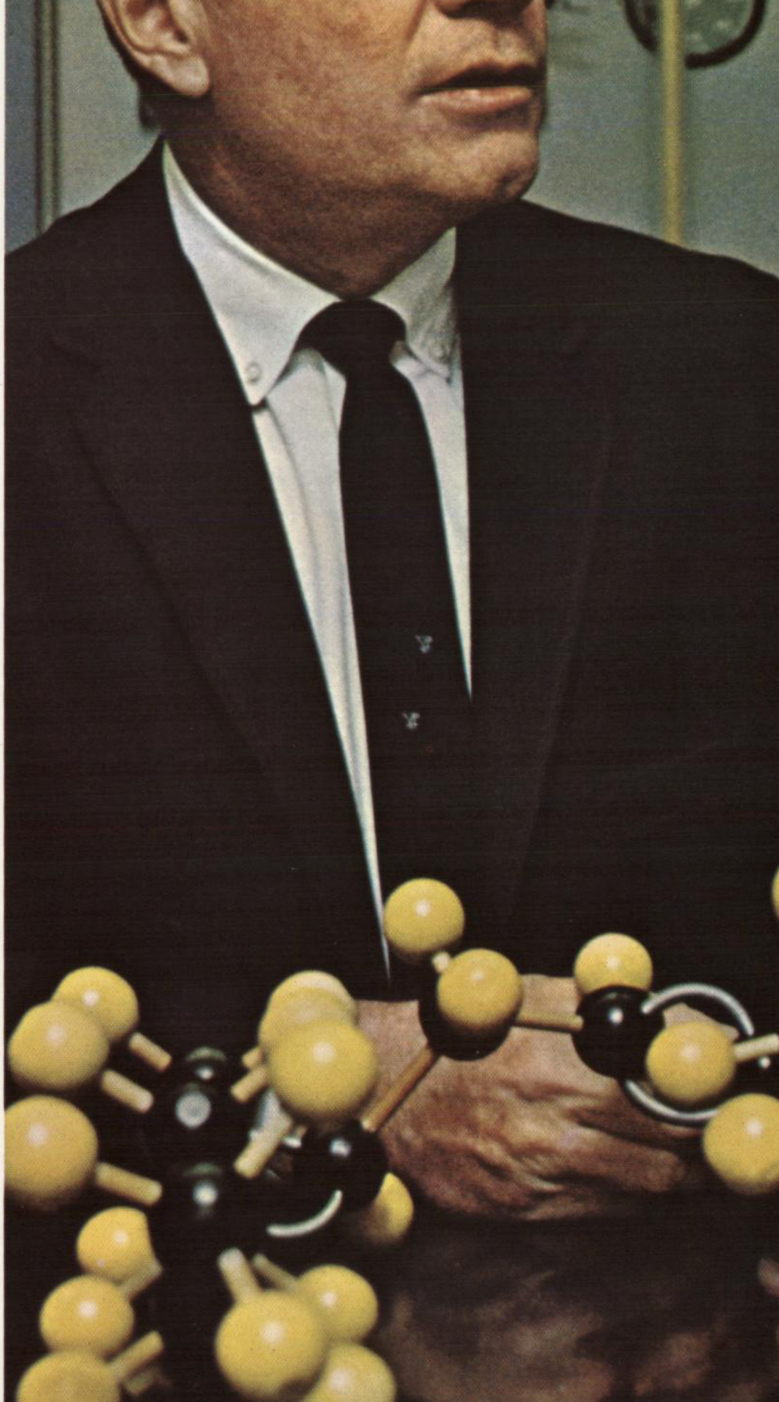
Management-in-Depth

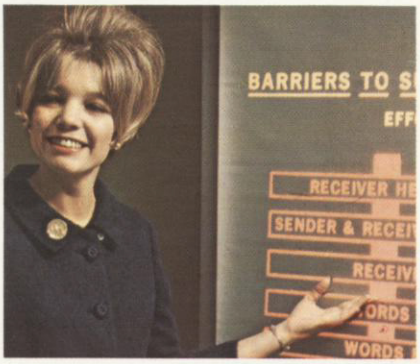
It should be noted that these top executives are long-time Nabisco employees who have been well prepared for their new assignments through experience and special training. Development of management-in-depth has long been one of the Company's chief objectives. To that end, careful attention is devoted to the recruitment and training of personnel at every level, and to promoting from within whenever possible.

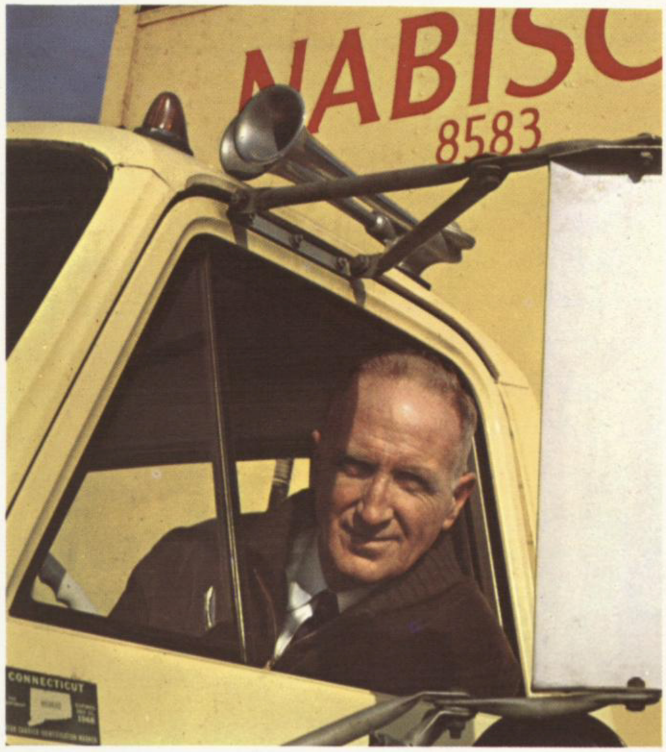
NABISCO also offers employees a liberal tuition-aid program for studies in job-related courses. At present, many employees are taking advantage of this opportunity to broaden their skills and enhance their chances for advancement. This is an example of the many programs in progress at NABISCO to increase the effectiveness of our supervisory and management personnel throughout the Company.



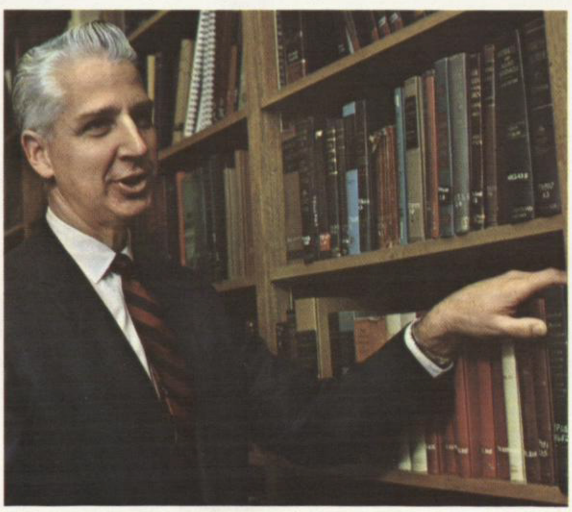
THE PEOPLE OF NABISCO WORK TOGETHER IN A CLIMATE THAT IS CONDUCIVE TO GROWTH AND DEVELOPMENT. Top, this Nabisco bakery employee is covered by the Company's excellent benefit program, which includes paid vacations and holidays, medical and life insurance, pensions, an employee stock purchase plan and an active suggestion system with cash awards. Above, packing machine operator inspects newly formed cartons on their way to pneumatic filler which will deposit proper weight in each carton. Right, baker adjusts speed of conveyor leading from 300-ft. gas oven to *Oreo* Creme Sandwich icer. Left, bakery packer stacks *Fig Newtons* Cakes for automatic wrapping of *Nab* packets which are sold in vending machines.

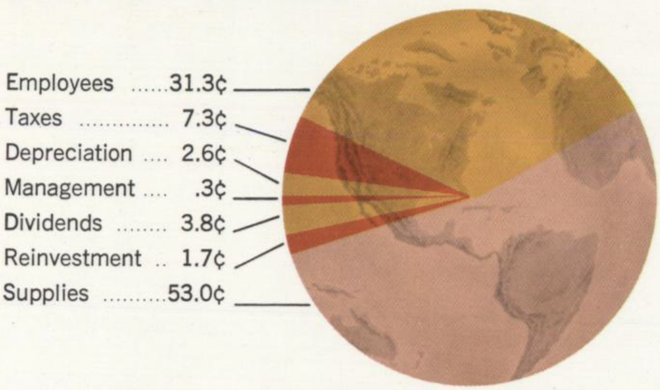




THE PEOPLE OF NABISCO ARE THE TEAM WHICH MOVES NABISCO ON TO EVER HIGHER GOALS. Left, scientists at Nabisco's Research Center in Fair Lawn, N.J. turn to the world of test tubes and molecular structures in the development of entirely new food concepts and packaging materials. Above, a professional teacher, who is now with Nabisco, conducts management training seminar. Right, mixer empties a ton of cookie dough into movable trough for journey to the ovens. Far right, Nabisco's skilled driver transports freshly baked Nabisco products from bakery to sales branch in giant trailer truck. Center, young laboratory technician conducts special quality-control test at a Nabisco bakery abroad. Below, researcher seeks out the answer at Nabisco's modern technical library. In addition to a large number of reference books, the library regularly receives key scientific publications from government, industry, and educational sources. Below right, bakery forelady discusses work assignment with a packing unit supervisor.

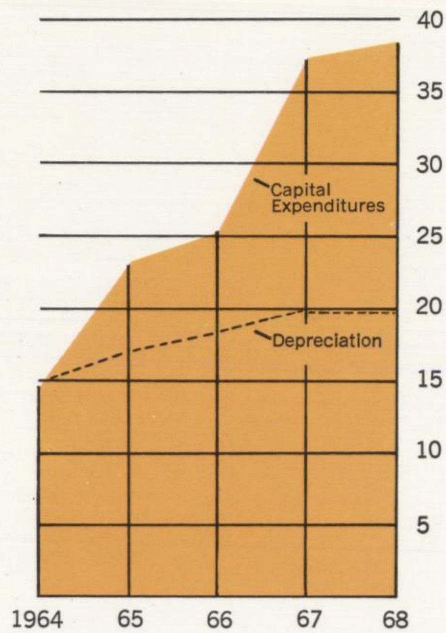


How Each Worldwide NABISCO Sales Dollar Was Used



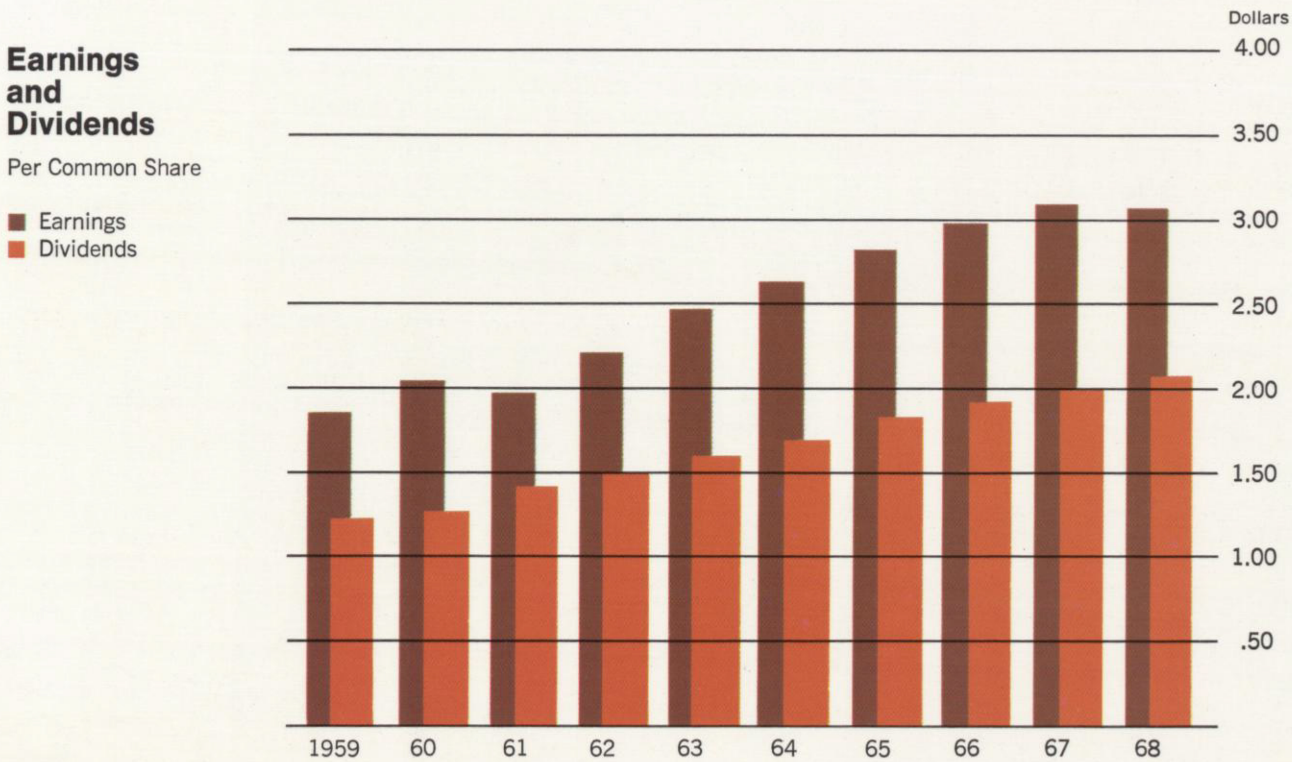
Capital Expenditures and Depreciation

Millions of Dollars



Earnings and Dividends

Per Common Share



NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

Statement of Income and Retained Earnings

	1968	1967
Net Sales	**$770,084,000**	$763,634,000
Cost of sales	**497,444,000**	502,557,000
Selling, general and administrative expenses	**182,105,000**	176,827,000
	679,549,000	679,384,000
Income from Operations	**90,535,000**	84,250,000
Interest and miscellaneous income, net	**3,841,000**	1,661,000
Interest on long-term debt	**(4,349,000)**	(1,956,000)
Income before Income Taxes	**90,027,000**	83,955,000
Income taxes (deferred: 1968, $2,777,000; 1967, $1,921,000)	**48,271,000**	41,678,000
Net Income	**41,756,000**	42,277,000
Retained earnings January 1	**191,288,000**	176,182,000
	233,044,000	218,459,000
Common dividends declared, $2.10 per share in 1968, $2.00 per share in 1967	**28,525,000**	27,171,000
Retained earnings December 31	**$204,519,000**	$191,288,000
Net Income per share of common stock, based on average number of shares outstanding during the year	**$3.07**	$3.11

(Financial statements should be read in conjunction with the accompanying notes to the financial statements.)

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

Balance Sheet

Assets

	December 31, 1968	December 31, 1967
Current Assets		
Cash	**$ 17,725,000**	$ 22,625,000
Short-term investments, at cost which approximates market	**82,362,000**	36,295,000
Accounts receivable	**49,989,000**	43,320,000
Inventories, at the lower of average cost or market	**82,329,000**	86,726,000
Total current assets	**232,405,000**	188,966,000
Property, Plant and Equipment, at cost		
Land	**8,163,000**	8,480,000
Buildings	**114,173,000**	113,074,000
Machinery and equipment	**273,961,000**	259,635,000
	396,297,000	381,189,000
Less accumulated depreciation	**207,118,000**	200,708,000
	189,179,000	180,481,000
Other assets	**22,471,000**	21,043,000
Excess of investment in consolidated subsidiaries over net assets	**27,521,000**	27,279,000
	$471,576,000	$417,769,000

(Financial statements should be read in conjunction with the accompanying notes to the financial statements.)

Liabilities

	December 31, 1968	December 31, 1967
Current Liabilities		
Accounts payable and accrued expenses	**$ 75,130,000**	$ 66,498,000
Common dividend payable	**7,131,000**	6,793,000
Income taxes	**16,022,000**	16,523,000
Total current liabilities	**98,283,000**	89,814,000
Long-Term Debt		
6½% Guaranteed Debentures, due October 1, 1982	**20,000,000**	20,000,000
4¾% Subordinated Debentures, due April 1, 1987	**33,308,000**	34,119,000
5¼% Guaranteed Convertible Debentures, due March 1, 1988	**30,000,000**	—
	83,308,000	54,119,000
Deferred income taxes and investment credit	**17,791,000**	15,014,000
Minority interest in consolidated subsidiaries	**2,739,000**	2,598,000
	202,121,000	161,545,000

Shareholders' Equity

Capital stock, common—par value $5 Shares authorized 24,000,000, issued 13,691,922	**68,460,000**	68,460,000
Additional paid-in capital	**923,000**	923,000
Retained earnings	**204,519,000**	191,288,000
Less Treasury stock, at cost—92,044 shares	**(4,447,000)**	(4,447,000)
	269,455,000	256,224,000
	$471,576,000	$417,769,000

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

Statement of Source and Application of Funds

	1968	1967
Source		
Net income	$ 41,756,000	$42,277,000
Depreciation	19,935,000	19,980,000
Deferred income taxes and investment credit	2,777,000	1,921,000
Proceeds from sale of debentures	29,250,000	19,200,000
Disposals of property, plant and equipment, net	10,120,000	3,873,000
	$103,838,000	$87,251,000
Application		
Increase in working capital	$ 34,970,000	$ 1,070,000
Property, plant and equipment additions	38,194,000	37,545,000
Dividends declared	28,525,000	27,171,000
Increase in "Other assets"	1,428,000	12,321,000
Miscellaneous, net	721,000	9,144,000
	$103,838,000	$87,251,000

(Financial statements should be read in conjunction with the following notes.)

Notes to Financial Statements

Consolidation The Company consolidates all its subsidiaries except for its interests in Galletas Artiach, S.A., Spain and B. Sprengel & Co., Germany.

Statement presentation In 1968, the Company modified the format of its Statement of Income and Retained Earnings by reclassifying depreciation and taxes (other than taxes on income) to Cost of Sales, and Selling, General and Administrative Expenses. In addition, certain state and local taxes which are based on income have been reclassified to Income Taxes. This presentation, in conformance with current reporting practice, required a reclassification for comparability, which had no effect on net income, of previously reported 1967 results.

Pension expense The Company has voluntary noncontributory pension plans, which have been approved by the shareholders, for employees not covered by union-industry pension plans. Certain subsidiaries have similar plans. Such pension expense, which is funded currently, is substantially equivalent to the provision for current service costs and interest on unfunded past service liability. In addition, the union-industry pension plans require contributions as defined in the union agreements. Total pension costs amounted to $8,937,000 in 1968, and $8,824,000 in 1967.

Depreciation of plant and equipment totaled $19,935,000 in 1968 compared to $19,980,000 in 1967. For financial reporting purposes the Company and its subsidiaries provide depreciation on buildings, machinery and equipment on a straight-line basis except for certain assets acquired primarily between 1954 and 1965, for which depreciation is provided on an accelerated basis. Accelerated depreciation methods are used for tax purposes. Deferred income taxes have been provided on the excess of tax depreciation over book depreciation.

Other assets at December 31, 1968 include $16,794,000 of investments in unconsolidated companies. These investments are carried at cost plus equity in undistributed net earnings since acquisition. The Company's equity in the underlying tangible net assets is $7,593,000. The balance in other assets, $5,677,000, consists principally of prepaid expenses and deferred charges.

Long term debt The 6½% Guaranteed Debentures will be subject to redemption through a sinking fund beginning in 1970. All or any part of these debentures may be redeemed beginning in 1972 at prices decreasing gradually from 103% of the principal amount to 100% in 1979 and thereafter.

At any time after April 1, 1972, the 4¾% Subordinated Debentures may be redeemed at prices decreasing gradually from 104% of the principal amount in April 1972 to 100% in April 1985 and thereafter.

The 5¼% Guaranteed Convertible Debentures issued in March 1968 are convertible into 594,060 shares of common stock of the Company and will be subject to redemption through a sinking fund beginning in 1979. All or any part of these debentures may be redeemed beginning in 1973 at prices decreasing gradually from 104¾% of the principal amount to 100% in 1987 and thereafter.

Investment credit The Company's policy is to amortize the 7% investment credit over the lives of the qualifying assets.

Stock option plan In April 1964, the shareholders of the Company approved a Stock Option Plan authorizing the granting of options to officers and other key employees of the Company and its subsidiaries to purchase 250,000 shares of the Company's common stock at not less than 100% of the fair market value of the stock on the date the options are granted. All options must be exercised within a period of five years from the date granted and are not exercisable until after the second anniversary date. On January 1, 1968 there were options outstanding to purchase 168,150 shares. Options for the purchase of 42,200 shares at $48.63 were granted during 1968. No options were exercised during 1968. Options for 4,150 shares were cancelled during 1968 with the result that at December 31, 1968 there were options outstanding to purchase 206,200 shares at prices ranging from $44.31 to $68.00. Options covering 109,050 shares were exercisable at December 31, 1968.

Commitments, principally in regard to plant and equipment, approximated $12 million at the end of 1968. In addition, annual rentals on properties operated by the Company under leases expiring from 1972 to 1983 aggregate approximately $4.1 million.

Consolidated foreign subsidiaries are included in the financial statements for 1968 at the following U.S. dollar amounts (translated at appropriate rates of exchange): working capital, $13,681,000; net plant assets, $68,494,000; net sales, $170,229,000; and net income after minority interest, $3,717,000.

Report of Auditors

To the Shareholders of National Biscuit Company:

We have examined the balance sheet of National Biscuit Company and consolidated subsidiaries as of December 31, 1968, the related statement of income and retained earnings and the statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were furnished reports of other public accountants upon their examinations of the financial statements of certain foreign subsidiaries. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based upon such reports. We made a similar examination of the financial statements for the year 1967 and have previously reported thereon.

In our opinion, the aforementioned financial statements present fairly the financial position of National Biscuit Company and consolidated subsidiaries at December 31, 1968 and 1967, and the results of their operations and source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

February 5, 1969
2 Broadway
New York, New York 10004

NATIONAL BISCUIT COMPANY AND CONSOLIDATED SUBSIDIARIES

Ten Year Financial Review

Dollars in Millions (except per share figures)

	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
Net sales	**$770.1**	$763.6	$719.6	$675.6	$607.5	$578.4	$547.5	$486.3	$463.6	$429.0
Income before income taxes	**90.0**	84.0(a)	78.0	74.6	74.3	70.7	63.8	59.2	60.8	51.2
Income taxes	**48.2**	41.7(a)	37.2	36.2	37.8	36.8	33.0	30.8	31.5	26.7
Net income	**41.8**	42.3	40.8	38.4	36.5	33.9	30.8	28.4	29.3	24.5
Earnings retained	**13.3**	15.1	14.9	13.8	13.2	12.2	10.2	7.8	10.4	7.5
Net income per common share	**3.07**	3.11	2.99	2.80	2.66	2.47	2.22	1.98	2.04	1.78
Dividends declared										
Preferred stock	**—**	—	—	—	—	—	.4	1.7	1.7	1.7
Common stock	**28.5**	27.2	25.9	24.6	23.3	21.7	20.2	18.9	17.2	15.3
Per common share	**2.10**	2.00	1.90	1.80	1.70	1.60	1.50	1.40	1.25	1.20
Current assets	**232.4**	189.0	179.9	182.9	166.9	152.8	135.1	129.6	129.7	112.2
Current liabilities	**98.3**	89.8	81.8	84.8	70.1	65.8	62.8	52.4	53.9	46.0
Working capital	**134.1**	99.2	98.1	98.1	96.8	87.0	72.3	77.2	75.8	66.2
Plant and equipment, net	**189.2**	180.5	159.3	152.8	132.4	132.1	136.5	125.3	121.4	121.3
Plant and equipment expenditures	**38.2**	37.5(b)	25.6	23.1	14.7	11.8	24.0	16.8	11.5	8.4
Cost of employees' services	**241.4**	238.0	222.1	208.5	189.2	180.3	172.5	156.8	148.9	140.1
Provision for all taxes (except social security)	**56.4**	48.9	45.4	43.9	44.2	43.2	39.9	36.1	36.7	31.5
Book value of common stock	**269.5**	256.2	241.5	230.7	216.9	203.7	191.5	195.7	187.8	171.1
Book value per common share	**19.81**	18.84	17.75	16.85	15.84	14.88	13.99	14.50	13.92	13.40
Number of shareholders	**78,200**	78,000	77,600	78,500	80,000	80,500	81,400	83,200	77,300	75,800

(a) Restated to reflect change in statement presentation referred to in notes to financial statements.

(b) Restated to include $5.9 million of additions to leased cars capitalized in 1967.

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